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REPUBLIC OF THE PHILIPPINES

BUDGET

FOR THE FISCAL YEAR

1961

SUBMITTED BY THE

PRESIDENT OF THE PHILIPPINES

TO THE

CONGRESS OF THE PHILIPPINES

MANILA : BUREAU OF PRINTING : 1960

The 1961 budget, as in the last three years, is again presented in the context of a Five-Year Fiscal Plan. The country's fiscal, monetary, and economic position as we find it today and as we see it in the years ahead has been considered in the preparation of the revised 1960 Fiscal Plan, the 1961 Fiscal Plan, and the balance of the Five-Year Fiscal Plan.

The following discussion in this Budget Message is divided into two parts, to wit:

PART I.—THE FIVE-YEAR FISCAL PLAN

PART II.—THE 1961 FISCAL PLAN

Part I.—THE FIVE-YEAR FISCAL PLAN

I. THE LONG-RANGE PERSPECTIVE

From a Viable to a Dynamic Economy

Our Administration has assumed the difficult but most rewarding task of making our national economy more responsive to the needs of our people. We have oriented our economic structure to its ultimate goal of providing a more abundant life to this nation.

We are happy to note that advances have been made at a dynamic pace. Production for export has been rapidly complemented by production for the local market. Our domestic output of foodstuffs, manufactures, and services is impressively increasing. In particular, we have attained self-sufficiency in the basic staples of rice and corn. As new investments have multiplied, so have incomes and employment expanded.

The basic problem we are grappling with is the pressure of our rising population and its increasing need for goods and services. Expenditures, therefore, have to be made for new productive facilities as well as for immediate consumption. But, as the spending of both the public and private sectors has increased, the resulting rise of prices and the decline of our foreign exchange resources have become problems that require immediate remedies. To correct these distortions in our economic progress, we have undertaken a program of economic stabilization.

But, while we have focused our attention on the pressing need for stabilization, our economic and social development has in no way been neglected. We have exercised restraints in budgetary expenditures, but not at the expense of urgent projects. Our policy of retrenchment has not set back our economy. We are, therefore, presenting for your consideration the following Five-Year Fiscal Plan that reflects this Administration's concern for the maintenance of a dynamic and stabilized economy.

The Long-Range Goals

The promotion of the economic and social development of the nation has always been the ultimate aim of our long-range fiscal policy. Our objectives in the attainment of economic and social improvement are still the following: (1) to provide a progressively increasing number of jobs and steady employment for our growing labor force; (2) to raise real per capita income; and (3) to bring about a more equitable distribution of income.

Advances have indeed been made in several fields of our economic program. In the first nine months of 1959, jobs in non-agricultural establishments were 17 per cent more than in 1955, and 4 per cent more than in 1958. Real per capita income rose from ₱342 in 1955 to ₱377 in 1959.

Our fiscal policy has contributed to the attainment of this economic and social progress. Both directly and indirectly government expenditures have helped increase our domestic production. For instance, from fiscal years 1954 through 1957, the promotion of economic and social development absorbed 66.5 per cent of the total outlays of the National Government. Increased social services for our people have, furthermore, brought about a more equitable distribution of real income.

Our progress, however, should not close our eyes to the challenging problems that still confront us. Our population increases at the rate of 3 per cent a year, and about 277,000 are annually added to our labor force. More has still to be done, though much has already been accomplished.

General Pattern of the Government's Development Program

A general pattern was prepared last year to serve as guide in the pursuance of the Government's economic development program. Since it was made consistent with our long-range goals, it remains adequate. The pattern is as follows:

1. Maintenance of attained self-sufficiency in primary foodstuffs and other essential commodities.
2. Broader utilization, development and conservation of the country's natural resources.
3. Strengthening of our international reserves.
4. Increasing our foreign exchange receipts from exports.
5. Full exploitation of foreign trade instruments other than controls.
6. Attraction of the right kind of foreign investments, assistance, and financing.

7. Continued effort for stabilization of the Government's fiscal position.

8. Continued redirection of credit resources to productive undertakings.

9. Maintenance and broadening of various social services.

Policy on Government Private Corporations

Many government private corporations produce goods and services which enhance our economic and social development. For instance, our transportation facilities are being improved by the ship construction and railway extension programs of the NASSCO and the MRR. In addition, preliminary steps have been taken to establish an integrated steel plant in Iligan which should be a joint venture between the Government and private enterprise.

It is, however, our fundamental policy that private enterprise should have the major role in promoting our economic development. Government private corporations, therefore, should be turned over to private enterprise as soon as possible under reasonable terms and conditions. The Government will retain only those corporations whose pioneering objectives are not yet substantially realized and those whose functions are mainly social or governmental. Many of the latter can be converted into regular government agencies.

It is also our principal policy to improve the management and the technical and financial conditions of government private corporations in order to make them attractive to private enterprise. In Fiscal Year 1959, the net profits of 13 corporations amounted to ₱80.9 million (see Appendix 6). At the end of the same year, the cash balance of 19 corporations was ₱83.7 million (see Annex R).

Efficacy and Continuity of Long-Range Planning

Our growing experience in long-range fiscal planning has served us well in the preparation of financial measures and the allocation of our limited resources. The first Five-Year Fiscal Plan was presented to Congress in February 1957. It showed the total expenditure program and financing sources of the Government. It enabled the Executive Branch and Congress to make adequate plans and reach decisions after considering several courses of action.

The first long-range fiscal plan was made flexible enough to permit adjustment to changes in economic and monetary conditions. Each ensuing year saw a revision of the plan, the dropping of one year and the extension of another year to maintain long-range continuity. The same procedure has been followed in the preparation of the Five-Year Fiscal Plan embodied in this Budget Message.

Some of our expectations in last year's Five-Year Fiscal Plan did not materialize. For one, Congress did not approve all our tax proposals. Receipts from reparations proceeds fell short of our estimates. We had to make a drastic cutback in the bond-financing program and continue stringent measures and retrenchment in government expenditures.

In this year's Five-Year Fiscal Plan, we have reflected adjustments consistent with our development needs and changes in economic and monetary conditions. The following table shows these adjustments in quantitative terms:

SUMMARY OF DIFFERENCES BETWEEN THE 1960–1964 AND 1959–1963 FISCAL PLANS

(Million Pesos)

	FY 1959	FY 1960	FY 1961	FY 1962	FY 1963	FY 1964
1959–1963 Fiscal Plan						
Economic Development	362.5	449.2	475.6	516.5	509.0	
Social Development	364.6	397.9	430.7	455.8	491.0	
National Defense	180.6	184.8	187.4	193.0	196.7	
Debt Service	53.8	137.2	126.9	110.6	110.1	
General Government	97.5	111.2	106.9	131.2	118.4	
Total Expenditures	1,059.0	1,280.3	1,327.5	1,407.1	1,425.2	
1960–1964 Fiscal Plan						
Economic Development	322.5	389.7	421.1	491.5	523.9	550.3
Social Development	370.7	393.1	448.5	472.7	490.0	513.7
National Defense	183.7	184.2	190.5	194.0	196.2	197.6
Debt Service	53.6	76.6	70.4	76.3	81.6	82.4
General Government	101.2	115.4	112.4	126.8	119.4	130.7
Total Expenditures	1,031.7	1,159.0	1,242.9	1,361.3	1,411.1	1,474.7
Adjustment (+ or −)						
Economic Development	−40.0	−59.5	−54.5	−25.0	+14.9	
Social Development	+ 6.1	− 4.8	+17.8	+16.9	− 1.0	
National Defense	+ 3.1	− 0.6	+ 3.1	+ 1.0	− 0.5	
Debt Service	− 0.2	−60.6	−56.5	−34.3	−28.5	
General Government	+ 3.7	+ 4.2	+ 5.5	− 4.4	+ 1.0	
Total Expenditures	−27.3	−121.3	−84.6	−45.8	−14.1	

The 1960–1964 fiscal plan is substantially lower than the 1959–1963 fiscal plan which, in turn, was less than that of 1958–1962. For Fiscal Year 1959, actual expenditures were only ₱1,031.7 million compared with

a planned expenditure of ₱1,059.0 million. For Fiscal Year 1960, the reduction is even bigger: ₱1,159.0 million in the revised fiscal plan as against ₱1,280.3 million in last year's plan.

The Current Economic Perspective

Fiscal policy and the national economy are bound together by a reciprocal relationship. Through the Government's budget, desirable changes in production, income, and prices can be brought about. Economic conditions, in turn, affect government budgetary programs. There can be no sound formulation of fiscal policy except in the light of the current economic perspective.

Our fiscal policy has been concerned with the stabilization of our international reserve and domestic prices. As of December 9, 1959, our international reserve was $165.9 million; a year ago it was $125.1 million. For the first time in postwar years our exports exceeded our imports. During the first nine months of 1959, average retail prices in Manila were relatively stable; in fact, they were 0.6 per cent lower than their level in 1958.

In our economic stabilization program, fiscal policy did contribute its beneficial influence. The previously planned expenditures of the National Budget have been cut. Tax collections have increased and bond financing has been reduced. In the first nine months of 1959 the public sector withdrew ₱70.3 million from money supply.

Monetary restraints have also been imposed. For instance, the Central Bank's rate on advances and rediscounts was raised to 6½ per cent for certain kinds of loans. But in the first nine months of 1959 the rate of credit extension to the private sector was about double that of 1958.

In the first nine months of 1959 the physical volume of production in agriculture rose by 4 per cent and in mining by 15 per cent, compared with the output in the same period of 1958. Compared with the record made in the same period of 1958, manufacturing production increased by 11 per cent in the first six months of 1959.

Our national economy is undergoing the transition between the first stage of development and the stage of highly vigorous growth. Private entrepreneurship is increasingly providing the mobilizing force in business undertakings. The Government is primarily concerned that economic development should proceed soundly. Accordingly, fiscal policy has to be always responsive to the needs of the present.

II. THE FIVE-YEAR FISCAL PROGRAM

Fundamental Policies and Principles

The same fiscal policies and principles embodied in last year's budget message have guided the preparation of the updated Five-Year Fiscal Plan covering the period from Fiscal Year 1960 through Fiscal Year 1964. They are as follows:

1. The Government will continue to maintain a balanced budget for general operations and make every effort to obtain revenues sufficient to meet planned obligations or reduce commitments. We shall not resort to the practice in the past of deficit financing for current operations.
2. We shall adopt a policy of judicious public borrowings to finance economic development without impairing monetary stability. Such borrowings will be used exclusively for income-creating or other productive capital expenditures to finance priority ranking projects directly contributing to industrial and agricultural production. We shall reduce the use of national credit as rapidly as development needs are met, or as other resources become available.
3. We shall test every proposed expenditure of public funds against the touchstone of national interest. In the serious business of national development we cannot afford the luxury of administrative waste or of excessive expenditures for projects of secondary or merely political importance.
4. Our tax policy will be geared to the essential financial requirements of government for general operations and development purposes. The tax structure must emphasize the progressive factor of ability to pay without impairing appropriate business incentives.
5. The public debt will not exceed a level consistent with our economic growth. We shall keep amortization and interest payments against the public debt on schedule and establish the necessary sinking funds for their ultimate retirement.
6. Tariffs will be employed as a means of offering reasonable protection to domestic producers where such measures appear economically sound and in the national interest. However, we shall continue to use tariffs primarily as a source of revenue. We shall avoid any tendency to isolate the economy behind a formidable tariff wall.

The Five-Year Fiscal Plan, 1960–1964

The Five-Year Fiscal Plan as revised in the light of better information available and the current economic perspective is presented below in consolidated form:

CONSOLIDATED FIVE-YEAR FISCAL PLAN, 1960–1964

By Program Emphasis and Financing Sources

ALL FUNDS COMBINED

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)	1960–1964 Total
Expenditure Purposes: [a]							
1. Economic Development	322.5	389.7	421.1	491.5	523.9	550.3	2,376.5
2. Social Development	370.7	393.1	448.5	472.7	490.0	513.7	2,318.0
3. National Defense	183.7	184.2	190.5	194.0	196.2	197.6	962.5
4. Debt Service	53.6	76.6	70.4	76.3	81.6	82.4	387.3
5. General Government	101.2	115.4	112.4	126.8	119.4	130.7	604.7
Total Expenditures	1,031.7	1,159.0	1,242.9	1,361.3	1,411.1	1,474.7	6,649.0
Financing Sources: [a]							
1. General Fund Receipts	785.4	900.7	955.0	917.3	920.8	923.9	4,617.7
2. Special and Fiduciary Funds	192.7	182.4	179.8	214.0	216.5	218.6	1,011.3
3. Public Borrowings [c]	75.0	49.9	71.6	87.2	77.7	65.1	351.5
4. Other Public Borrowings [b]	19.5	25.9	19.4	28.1	48.3	70.0	191.7
5. Reparations	7.8	22.7	30.8	16.8	20.8	24.8	115.9
6. Required Additional Revenues	—	—	—	108.3	135.2	174.5	418.0
Total Resources	1,080.4	1,181.6	1,256.6	1,371.7	1,419.3	1,476.9	6,706.1

[a] Interfund transfers eliminated.
[b] R.A. No. 1600 Bond Fund.
[c] NPC bonds, NAWASA bonds, DBP bonds and Negotiable Land Certificates.

NOTE: 1. Above table does not include transactions of government financial institutions, operating income and expense of government corporations, and loans to government from commercial banks or government financial institutions.
2. Details of the distribution of expenditures by funds, functions and current operating expenditures and capital outlays are shown in Annex A.

On the financing side, all possible sources were considered, including general revenues from existing sources, proceeds from public borrowings and reparations, and other funds. On the expenditure side were included the budget for the ordinary operations of the Government, public works, subscriptions to capital stock of government corporations, investments, and other obligations of the National Government such as contributions to sinking funds, loan repayments, and interest payments.

For the whole five-year period, public outlays for investment and current expenditures, including the estimated amounts of local government expenditures, average 15.7 per cent of the total national income. This ratio is relatively lower than that in many other underdeveloped countries of the world. A comparison of the ratio of government expenditures to national income among various countries of the world is given in Annex B.

A Rising National Income

On the assumption that the implementation of the Five-Year Fiscal Plan would create a healthy atmosphere for the growth and expansion of productive capacity in the private sector, it is estimated that our national income would reach ₱11.3 billion by 1964, or at an average annual increase of about 4 per cent. Per capita incomes are expected to rise from ₱384 in 1958 to ₱399 in 1964.

The estimated growth of the gross national product, the national income, and per capita income at current prices is shown below:

Calendar Year	Gross Nat. Product (M. Pesos)	National Income (M. Pesos)	Per Capita Income (M. Pesos)	Index of Growth of NI
1958 (Actual)	10,464	9,232	384	100
1959	10,741	9,418	381	102
1960	11,187	9,804	385	106
1961	11,633	10,189	388	110
1962	12,080	10,574	392	114
1963	12,526	10,959	396	119
1964	12,972	11,344	399	123

SOURCE OF BASIC DATA: National Economic Council

The projected rate of growth of the national income from 1958 to 1964 is slightly lower than that for the period between 1954 and 1957 when the national income rose from ₱7.1 billion to ₱8.8 billion, or at 5.4 per cent per year on the average. The slower rates of growth in our projection reflect the effects of our fiscal stabilization and austerity measures.

Controlling the Expansion of Money Supply

We have not overlooked the probable impact of our economic and social development program on money supply and prices. We have devised the plan in such a way that the total public investments for the next five years will not unleash inflationary pressures that will bring about social injustices. We shall achieve our national economic objectives in an atmosphere of stability and greater productivity for the private sector. But, while monetary stability is desirable, we cannot unduly sacrifice increased productivity which in the long run is the only real guarantee of such stability.

The instruments of fiscal policy we shall use to counteract inflationary pressures brought about by an increased money supply include

(1) increasing use of savings to absorb a greater proportion of bond issues, (2) domestic debt servicing, and (3) a more equitable tax program based on ability to pay. These fiscal measures will be complemented by monetary policies to restrain credit for non-essential purposes.

The revised Five-Year Fiscal Plan provides for increased reliance on the use of savings to finance a greater proportion of bond fund expenditures, maximum use of non-inflationary sources for financing our development programs, and a scaling down of the use of national credit to the lowest possible amounts.

Our domestic debt servicing and monetary and credit restraints will have a disinflationary effect. The increment in the supply of money will be able to sustain the growth in our economy. Average prices will remain at a level within the capacity of the economy to absorb. As may be seen in Annex C, our planned cash disbursements of the proceeds of domestic bond issues would result in a fall of prices by as much as 6.1 per cent from the Fiscal Year 1959 level.

Foreign Exchange Requirements

Foreign exchange is needed to finance the development projects included in the Five-Year Fiscal Plan. For this we shall continue to tap all sources of external loans and use deferred payment plans, thus minimizing the present demand for foreign exchange allocation and allowing our international reserve to rise. We have already paid our additional subscriptions to the capital stock of the International Bank for Reconstruction and Development and the International Monetary Fund to increase our borrowing capacity from these institutions.

Last year we were able to secure an initial loan of $18.75 million from the Development Loan Fund of the United States for the purchase of spare parts for construction equipment and for the construction of five major road and bridge projects. Still subject of current negotiations with the Fund and the Export-Import Bank are loans for: (1) the improvement of the Manila International Airport to prepare it for jet aircraft operations; (2) the improvement and expansion of the Manila International Port; and (3) the acquisition of dredges. The foreign exchange costs of the Marikina Multi-purpose Project and the telecommunications project are proposed to be financed through a loan from the Export-Import Bank of Japan. We are presently studying the offer of German industrialists to finance the Iligan steel mill and provide technicians from their country to help set up the project. The foreign exchange requirements of the Biñga Hydroelectric Project are partly being met out of the proceeds of a loan from the International Bank for Reconstruction and Development. It is likewise proposed to have the World Bank finance the foreign exchange costs of other hydroelectric projects of the National Power Corporation such as Maria Cristina No. 3 and No. 4, Angat River Hydroelectric, Agus No. 1 and No. 2, and Tabu (Agno No. 3) Hydroelectric projects.

Of the total foreign exchange requirements of development projects in the amount of ₱675.3 million (or about $337,669,000), about ₱413.8 million is proposed to be obtained as loans from the various foreign financing institutions as follows: from the Development Loan Fund, ₱37.5 million; from the Export-Import Bank of Japan, ₱95.6 million; from the Export-Import Bank of the United States, ₱139.1 million; and from the International Bank for Reconstruction and Development, ₱141.6 million. We are also proposing to have the Central Bank of the Philippines provide for ₱173.2 million of the foreign exchange requirements and to obtain ₱88.3 million from reparations. The distribution of foreign exchange requirements by fiscal years is as follows: ₱21.6 million in 1960, ₱105.2 million in 1961, ₱170.0 million in 1962, ₱169.0 million in 1963, ₱89.6 million in 1964, and ₱119.9 million in later years.

A schedule of the foreign exchange requirements of our development projects is given in Annex D.

III. PRIORITY ALLOCATION OF AVAILABLE RESOURCES

Steady Rise in Costs of Expanding Government Services

Government services have to expand with the rapid growth of population and an accelerated economic and social development. A growing population demands more and improved essential public services. There is, too, the cost of general government operations, the need for maintaining our armed forces, and the fund requirements for servicing debts. These are some of the reasons for the steady rise in government expenditures.

The increasing national budget each year has always been the subject of criticism. What the critics fail to see is that such increases in expenditures are mandatory and normal for a nation that is undertaking economic and social development. They also fail to see that these expenditures represent the cost of providing our people, especially in the rural areas, with the services and facilities for a better life and the means of increasing the productive capacity of the nation.

The rising trend of government expenditures is reflected in the following table:

TREND IN NATIONAL GOVERNMENT EXPENDITURES

ALL FUNDS—BY FUNCTIONS

(Million Pesos)

Expenditure Purposes	FY 1953	FY 1954	FY 1955	FY 1956	FY 1957	FY 1958
Economic Development	162.7	287.7	263.4	355.4	373.0	379.2
Agriculture and Natural Resources	32.9	35.2	56.4	90.8	115.0	116.2
Commerce and Industry	15.8	25.0	55.8	56.6	37.9	53.4
Transportation and Communications	88.6	188.1	126.4	169.6	201.2	186.9
Other Economic Development	25.4	39.4	24.8	38.4	18.9	22.7
Social Development	193.2	231.0	275.4	309.8	342.0	365.4
Education	164.4	193.9	215.4	233.5	257.7	262.9
Public Health and Medical Care	24.9	30.0	45.3	59.6	71.6	83.2
Labor and Welfare	3.9	7.1	14.7	16.7	12.7	19.3
National Defense	184.5	176.3	170.0	164.9	156.1	181.1
National Defense	170.0	161.2	154.5	147.2	137.5	153.7
Maintenance of Peace and Order	14.5	15.1	15.5	17.7	18.6	27.4
Debt Service	50.7	52.2	53.2	57.8	92.5	68.4
General Government	63.6	63.9	69.8	72.3	83.8	106.6
Legislative Service	7.4	7.8	7.8	8.3	8.9	10.7
Administration of Justice	7.9	8.3	10.1	10.9	12.8	13.6
General Government	45.5	45.7	49.0	49.0	57.9	78.5
Pensions and Gratuities	2.8	2.1	2.9	4.1	4.2	3.8
Total Expenditures	654.7	811.1	831.8	960.2	1,047.4	1,100.7

NOTE: Except for FY 1958, the above table does not include Fiduciary Fund and borrowings of government corporations.

Our policy has been to allocate the highest possible proportion of available resources to economic development. As a result economic development expenditures in the past six years were more than double the ₱162.7 million in Fiscal Year 1953. From Fiscal Year 1953 to Fiscal Year 1958, expenditures for the development of agriculture and natural resources increased from ₱32.9 million to ₱116.2 million; for commerce and industry, from ₱15.8 million to ₱53.4 million; for transportation and communications, from ₱88.6 million to ₱186.9 million. Expenditures for other economic development services decreased from ₱25.4 million to ₱22.7 million.

Social development expenditures have also increased substantially since Fiscal Year 1953 from ₱193.2 million to ₱365.4 million in Fiscal Year 1958. These expenditures have gone into the increase in number of elementary classes from 89,073 to 120,786, the establishment and improvement of 129 schools of agriculture, arts and trades, fisheries and technology, and in the increase of rural health units from 81 to 1,247.

Expenditures for debt service and for general government have increased moderately, while those for national defense declined slightly. Debt service expenditures increased from ₱50.7 million in Fiscal Year 1953 to ₱92.5 million in Fiscal Year 1957 and then fell to ₱68.4 million in Fiscal Year 1958. In the case of general government expenditures, the increase was from ₱63.6 million in Fiscal Year 1953 to ₱106.6 million in Fiscal Year 1958. National defense expenditures decreased from ₱184.5 million in Fiscal Year 1953 to ₱181.1 million in Fiscal Year 1958.

Relative Program Emphasis in Expenditures

Fiscal policy is faced with the difficult task of allocating scarce resources among competing demands of the government sector to maximize capital formation and at the same time support the other reasonable requirements of normal governmental operations. Because resources are limited we have to decide whether to put more funds in economic development or in social development. At times we are tempted to restrict the expansion of social services until we attain increased productivity in our economy through economic development expenditures. However, recognizing the fact that a rapidly growing population requires expanded essential public services and facilities to effect a more equitable distribution of income, we cannot adopt fully this approach.

During the period from Fiscal Year 1959 to Fiscal Year 1961, for instance, expenditures for social development purposes were higher than those for economic development. We had to sacrifice our long-run objective of economic development in favor of our short-run goal of fiscal stabilization. From Fiscal Year 1962, however, we hope to increase again amounts devoted to economic development more than that to social development so that we may turn to our long-run goal of accelerated economic growth.

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Priority is given to (1) programs which directly promote industrial and agricultural productivity, (2) expenditures which facilitate the operation of dollar-earning and dollar-saving industries in the private sector, and (3) income-producing projects. Program priorities and budgetary allowances are determined after the expected benefits have been weighed favorably against the economic burden that the people will have to bear.

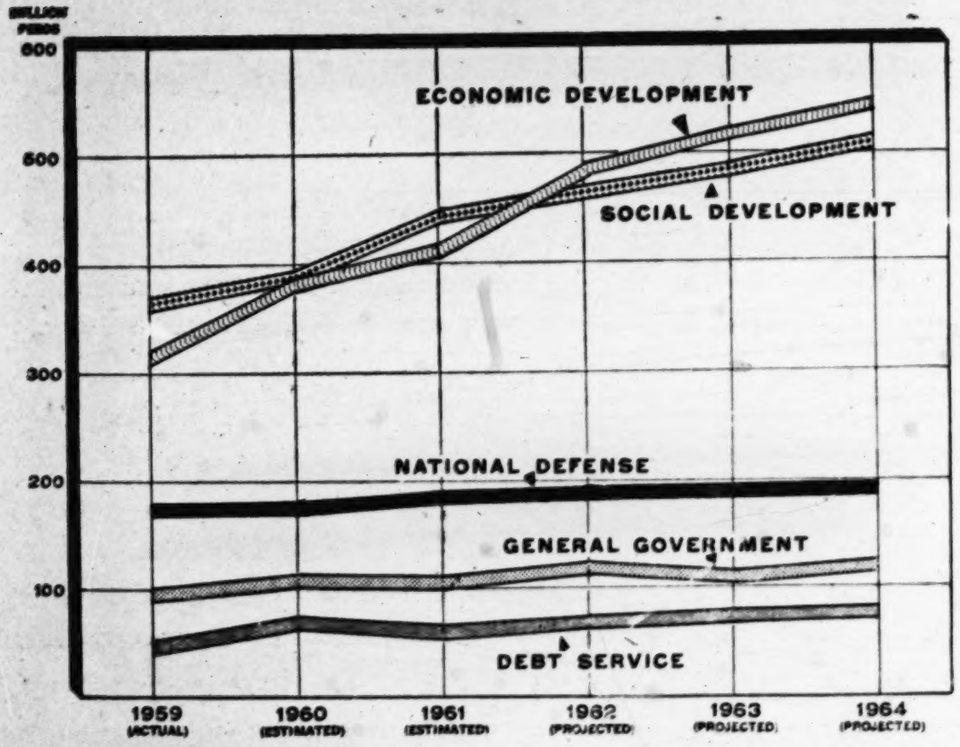
The following chart showing government expenditures from all fund sources from Fiscal Year 1959 to Fiscal Year 1964 reveals the relative emphasis given to the various programs in the light of the above considerations:

FIVE-YEAR FISCAL PLAN

1960–1964

RELATIVE PROGRAM EMPHASIS TRENDS

(ALL FUNDS)



Economic Development

The accumulation of capital can be greatly promoted by directing government expenditures to this purpose. The Government has a major role in the national development process. Through budgetary means, it can provide the necessary overhead facilities and services and create a favorable climate in which private enterprise can operate.

We are, therefore, using fiscal policy as a tool for economic development by allocating the bulk of our available resources to this purpose.

As I mentioned earlier, we have been devoting increasingly larger amounts each year for economic development. However, as a result of our fiscal stabilization program and retrenchment policy, expenditures for economic development which amounted to ₱379.2 million in Fiscal Year 1958 declined to ₱322.5 million in Fiscal Year 1959, but are estimated to rise to ₱389.7 million in Fiscal Year 1960. This may be seen in the following table:

AMOUNTS DEVOTED TO ECONOMIC DEVELOPMENT

ALL FUND SOURCES

(Million Pesos)

FY 1953	162.7
FY 1954	287.7
FY 1955	263.4
FY 1956	355.4
FY 1957	373.0
FY 1958	379.2
FY 1959	322.5
FY 1960	389.7

Our economic progress will depend largely on the amount of national income invested in production. Therefore, in our Five-Year Fiscal Plan, we are assigning more funds for financing economic development projects. This is indicated in the table below:

EXPENDITURES FOR ECONOMIC DEVELOPMENT

ALL FUNDS COMBINED

FY 1959–FY 1964

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
A. Amounts (*Million Pesos*)						
Agriculture and Natural Resources	95.4	110.6	113.4	128.6	133.7	143.5
Current Operating Expenditures	54.8	67.0	73.6	75.1	77.4	79.2
Capital Outlays	40.6	43.6	39.8	53.5	56.3	64.3
Commerce and Industry	28.1	33.9	46.0	65.6	91.2	107.0

Current Operating Expenditures	7.8	6.6	8.4	11.2	12.0	12.5
Capital Outlays	20.3	27.3	37.6	54.4	79.2	94.5
Transportation and Communications	175.8	212.6	230.2	254.0	255.4	256.0
Current Operating Expenditures	94.9	112.6	118.7	122.0	125.8	131.3
Capital Outlays	80.9	100.0	111.5	132.0	129.6	124.7
Other Economic Development	23.2	32.6	31.5	43.3	43.6	43.8
Current Operating Expenditures	11.0	26.7	26.4	23.3	23.6	23.8
Capital Outlays	12.2	5.9	5.1	20.0	20.0	20.0
Total Economic Development	322.5	389.7	421.1	491.5	523.9	550.3
Current Operating Expenditures	168.5	212.9	227.1	231.6	238.8	246.8
Capital Outlays	154.0	176.8	194.0	259.9	285.1	303.5

B. Relation to Total Expenditures (Per Cent)

Agriculture and Natural Resources	9.2	9.5	9.1	9.4	9.4	9.7
Commerce and Industry	2.7	2.9	3.7	4.8	6.5	7.2
Transportation and Communications	17.1	18.4	18.5	18.7	18.1	17.4
Other Economic Development	2.2	2.8	2.6	3.2	3.1	3.0
Total Economic Development	31.2	33.6	33.9	36.1	37.1	37.3

A breakdown of the capital outlays for economic development from all fund sources is shown below:

CAPITAL OUTLAYS FOR ECONOMIC DEVELOPMENT
ALL FUNDS COMBINED
FY 1959–FY 1964
(Million Pesos)

Project	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
1. Credit Facilities for Private Sector	3.0	4.5	8.5	12.8	14.7	23.3
2. Agriculture and Natural Resources	40.6	43.6	39.8	53.5	56.3	64.3
Direct Support	19.7	22.6	15.1	22.8	25.7	34.8
Irrigation	12.9	8.9	7.0	11.6	11.2	9.2
River Control	5.3	2.9	6.2	6.6	7.9	10.3
Land Reform and Settlement	2.7	9.2	11.5	12.5	11.5	10.0
3. Transportation and Communications	80.9	100.0	111.5	132.0	129.6	124.7
Highways and Roads	60.8	70.4	66.6	82.3	85.0	78.3
Railways	1.0	4.0	2.0	8.8	8.5	7.5
Port Facilities	7.2	16.1	17.1	13.6	10.0	13.0
Airports and Air Navigation	2.9	4.9	6.7	8.6	7.8	7.1
Shipping	6.4	3.1	14.6	13.7	13.2	12.7
Communications	2.6	1.5	4.5	5.0	5.1	6.1
4. Power and Steel Development	15.5	21.7	24.5	39.8	55.9	73.6
Power Development	15.5	21.7	19.3	31.6	49.9	66.9
Steel Industry	—	—	5.2	8.2	6.0	6.7
5. Others	14.0	7.0	9.7	21.8	28.6	17.6
Total	154.0	176.8	194.0	259.9	285.1	303.5

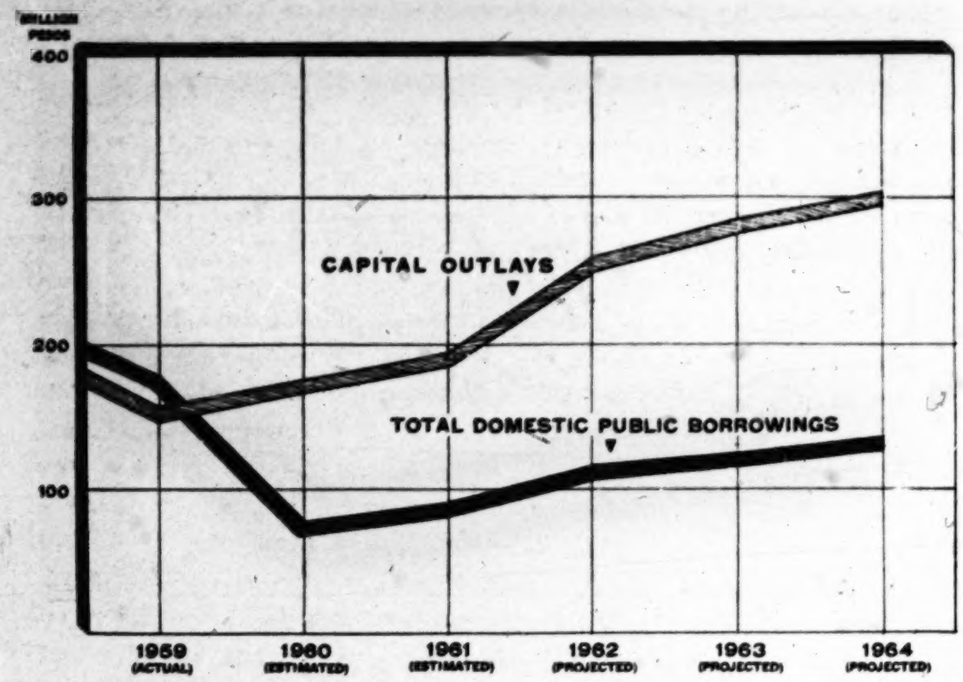
As may be noted, we are giving emphasis to development projects which would induce the private sector to participate more vigorously in the productive process. These include overhead facilities and services—transportation and communications, power, steel, and expansion of private credit resources to be used for promoting agricultural and industrial development—which are important to the over-all economic program.

Total capital outlays for economic development have increased faster than domestic public borrowings. The widening gap between capital outlays and public borrowings indicates that more and more of our economic development programs are being financed from sources other than domestic public debt such as General Fund, Special and Fiduciary Funds, and Reparations, as may be seen in the chart below. A comparison of domestic borrowings and capital outlays for economic development by fund sources is shown in Annex E.

FIVE-YEAR FISCAL PLAN

1960–1964

COMPARATIVE PROJECTION OF DEVELOPMENT FINANCING AND PUBLIC BORROWING



Social Development

The objective of our social development program is the improvement of the living and working conditions of our people in order that their productivity may be enhanced. It is also aimed at a more equitable distribution of income and wealth, since the benefits of broadened social services go primarily to the masses, especially those in the rural areas.

Expenditures for education, health, labor and welfare services are inescapable in the sense that they are mandatory to meet the requirements of normal population growth. Thus, with our population growing at the rate of about 3 per cent every year, the amounts we have provided for social development have also significantly increased. From ₱193.2 million in Fiscal Year 1953, total expenditures for social advancement have gone up to ₱370.7 million in Fiscal Year 1959, as may be noted in this table:

AMOUNTS DEVOTED TO SOCIAL DEVELOPMENT

ALL FUND SOURCES

(Million Pesos)

FY 1953	193.2
FY 1954	231.0
FY 1955	275.4
FY 1956	309.8
FY 1957	342.0
FY 1958	365.4
FY 1959	370.7

Substantial increments are likewise provided in our long-range fiscal plan for improving and expanding our education, health, social, and other services. Total expenditures for these purposes are planned to increase from ₱370.7 million in Fiscal Year 1959 to ₱513.7 million in Fiscal Year 1964, as shown in the table below:

EXPENDITURES FOR SOCIAL DEVELOPMENT

ALL FUNDS COMBINED

FY 1959–FY 1964

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
A. AMOUNTS (Million Pesos)						
Education	275.3	296.4	346.8	363.9	388.3	406.3
Current Operating	257.0	284.0	335.4	354.5	376.9	397.9
Capital Outlays	18.3	12.4	11.4	9.4	11.4	8.4
Public Health and Medical Care	79.7	78.4	80.7	89.6	82.0	87.6
Current Operating	63.9	63.6	66.6	70.3	71.6	73.5
Capital Outlays	15.8	14.8	14.1	19.3	10.4	14.1
Labor and Welfare	15.7	18.3	21.0	19.2	19.7	19.8
Current Operating	15.7	18.0	21.0	19.2	19.7	19.8
Capital Outlays	—	0.3	—	—	—	—
Total Social Development	370.7	393.1	448.5	472.7	490.0	513.7
Current Operating	336.7	365.6	423.0	444.0	468.2	491.2
Capital Outlays	34.0	27.5	25.5	28.7	21.8	22.5
B. RELATION TO TOTAL EXPENDITURES (Per Cent)						
Education	26.7	25.6	27.8	26.7	27.5	27.6
Public Health and Medical Care	7.7	6.8	6.5	6.6	5.8	5.9
Labor and Welfare	1.5	1.6	1.7	1.4	1.4	1.3
Total Social Development	35.9	34.0	36.0	34.7	34.7	34.8

I wish to point out, however, that while comparatively large amounts are programmed for social services, these sums are not even adequate to raise our standards to desirable levels. It is my earnest hope that as the nation's wealth grows, we can allot increasing amounts for the improvement of our social and cultural environment.

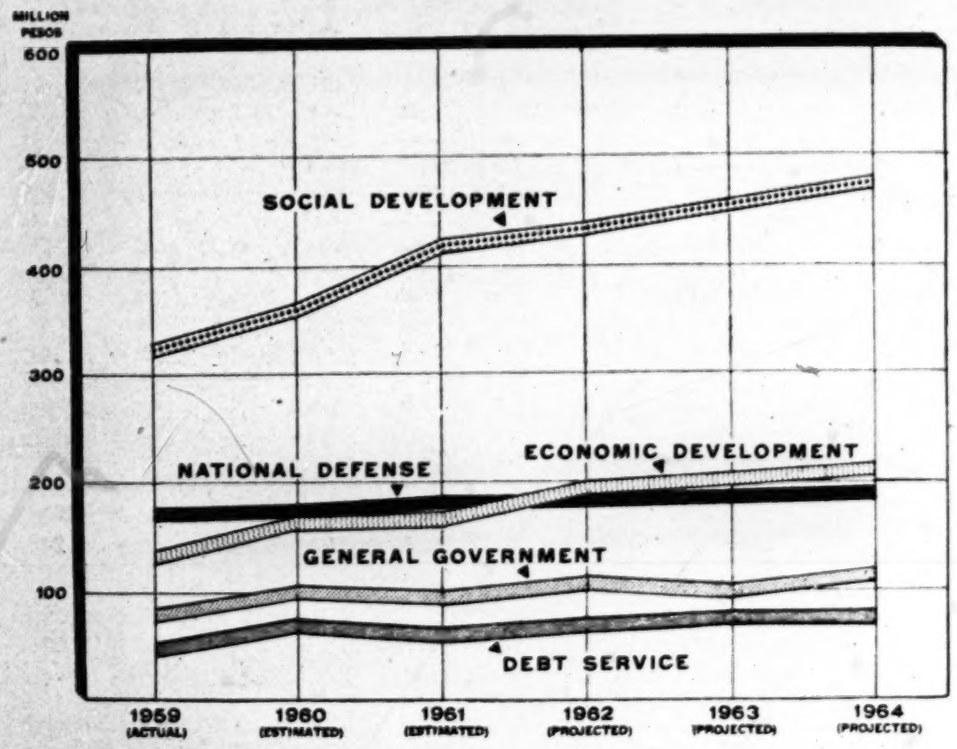
Essential as they are to our national uplift effort, our social development services must be financed from General Fund revenues. Because of the nature of these expenditures, it is sound policy to finance social services from the normal resources of the Government derived from taxation. Apart from the non-inflationary effect of such a policy, it also helps to redistribute the wealth of the nation more equitably. For these reasons, the largest portion of our available general revenues is allotted every year to social development, particularly to education. This trend is depicted graphically in the following chart:

FIVE-YEAR FISCAL PLAN

1960–1964

EXPENDITURE TRENDS AND RELATIVE PROGRAM EMPHASIS

(GENERAL FUND)



National Defense

Expenditures for national defense purposes will be maintained at minimum levels. These will be used for keeping the present strength of our armed forces in a state of military preparedness for counteracting and combating communist subversion and dissidence, for maintaining law and order, for basic military training and mobilization and for modernization of facilities and equipment. Since our defense is linked with the common defense of the free world, it is in the national interest that we fulfill our commitments to other nations, consistent with our membership in the SEATO and our mutual defense pact with the United States.

Also included under national defense expenditures are those needed to meet the increasing requirements for military pensions and gratuities to implement various laws granting additional benefits. These laws and the amounts required to implement them in Fiscal Year 1961 are as follows: Commonwealth Act No. 605, as amended by Republic Act No. 539 (military pensions of veterans of the Philippine revolution or wars), ₱9,548,585; Republic Act No. 610 (disability pensions and death gratuities of military personnel and trainees), Republic Act No. 1886 (educational benefits of veterans of the Korean War), and Republic Act No. 1920 (increasing the pensions of permanently disabled veterans from ₱50 to ₱100 a month), all aggregating ₱22,513,455; and Republic Act No. 2608 (increased benefits to retired and to-be-retired military personnel), ₱7,601,810. Of these amounts, ₱2,850,825 for implementing C. A. No. 605; ₱2,200,000 for R. A. No. 610; ₱1,800,000 for R. A. No. 1886; ₱2,000,000 for R. A. No. 1920; and ₱1,500,000 for R. A. No. 2608, represent increased obligations which cannot be covered by estimated revenues from existing tax sources of the General Fund, and as such have been included only as "B" Budget appropriations.

Starting in Fiscal Year 1961, the Philippine Navy, the Philippine Army, and the Philippine Air Force will intensify their participation in socio-economic military projects. The Philippine Army will help in agricultural development, road construction in rural areas, and construction of prefabricated schoolbuildings. The Philippine Navy will assist in developing the fishing industry and will continuously search for unexplored fishing grounds. The Philippine Air Force will help in the photogrammetry method of cadastral survey, in reforestation, and in artificial rain-making.

Other significant new activities to be undertaken starting this coming fiscal year are the implementation of R. A. No. 2334 (rotation of all reserve officers of the Armed Forces of the Philippines), R. A. No. 1886 (educational benefits of veterans of the Korean War), and production of aeronautical charts by the Bureau of Coast and Geodetic Survey, in addition to nautical and hydrographic maps being presently produced.

Actual and projected expenditures for the functions of national defense and maintenance of peace and order are shown below:

EXPENDITURES FOR NATIONAL DEFENSE

ALL FUNDS COMBINED

FY 1959–FY 1964

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
A. AMOUNTS (Million Pesos)						
National Defense	152.4	149.2	153.5	156.9	158.9	160.2
Current Operating	150.2	148.4	152.9	155.0	156.9	158.2
Capital Outlays	2.2	0.8	0.6	1.9	2.0	2.0
Maintenance of Peace and Order	31.3	35.0	37.0	37.1	37.3	37.4
Current Operating	30.3	34.8	36.8	36.6	36.8	36.9
Capital Outlays	1.0	0.2	0.2	0.5	0.5	0.5
Total National Defense	183.7	184.2	190.5	194.0	196.2	197.6
Current Operating	180.5	183.2	189.7	191.6	193.7	195.1
Capital Outlays	3.2	1.0	0.8	2.4	2.5	2.5
B. RELATION TO TOTAL EXPENDITURES (Per Cent)						
National Defense	14.8	12.9	12.3	11.5	11.3	10.9
Maintenance of Peace and Order	3.0	3.0	3.0	2.7	2.6	2.5
Total National Defense	17.8	15.9	15.3	14.2	13.9	13.4

Expenditures of the various units of the Armed Forces of the Philippines are given in the following table:

EXPENDITURES OF THE ARMED FORCES OF THE PHILIPPINES

ALL FUND SOURCES

FY 1959–FY 1964

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
General Headquarters	27.2	27.2	28.6	26.9	27.0	27.2
Philippine Army	58.7	53.8	54.0	55.2	55.8	56.0
Philippine Constabulary	29.3	32.9	34.8	34.8	35.0	35.2
Philippine Air Force	24.1	26.2	27.2	27.3	27.5	27.7
Philippine Navy	17.8	18.0	18.8	18.9	19.2	19.5
Total	157.1	158.1	163.4	163.1	164.5	165.6

General Government

In addition to expenditures for economic and social improvement, we must provide for general government administration, legislative services, administration of justice, and pensions and gratuities. Although it has been the administration's policy to maintain the expenditures for these activities at the minimum level, increases are provided for pensions and gratuities, administration of justice, and election expenses every two years, as shown in the following table:

EXPENDITURES FOR GENERAL GOVERNMENT

ALL FUNDS COMBINED

FY 1959–FY 1964

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
A. AMOUNTS (Million Pesos)						
Legislative Services	13.3	14.4	14.4	14.6	14.6	14.8
Current Operating	13.0	14.4	14.4	14.4	14.4	14.6
Capital Outlays	0.3	.....	.....	0.2	0.2	0.2
Administration of Justice	14.5	15.2	18.2	18.3	18.4	18.5
Current Operating	14.3	15.2	18.2	18.1	18.2	18.3
Capital Outlays	0.2	.....	.....	0.2	0.2	0.2
Pensions and Gratuities	3.6	8.7	10.4	14.8	16.0	17.2
Current Operating	3.6	8.7	10.4	14.8	16.0	17.2
General Government	69.8	77.1	69.4	79.1	70.4	80.2
Current Operating	61.8	69.7	64.8	73.4	64.6	74.6
Capital Outlays	8.0	7.4	4.6	5.7	5.8	5.6
Total General Government	101.2	115.4	112.4	126.8	119.4	130.7
Current Operating	92.7	108.0	107.8	120.7	113.2	124.7
Capital Outlays	8.5	7.4	4.6	6.1	6.2	6.0
B. RELATION TO TOTAL EXPENDITURES (Per Cent)						
Legislative Services	1.3	1.2	1.2	1.1	1.0	1.0
Administration of Justice	1.4	1.3	1.5	1.3	1.3	1.3
Pensions and Gratuities	0.3	0.8	0.8	1.1	1.1	1.2
General Government	6.8	6.6	5.6	5.8	5.0	5.4
Total General Government	9.8	9.9	9.1	9.3	8.4	8.9

The increasing costs of general government are also caused by the modernization program to improve our tax-collection machinery. The Bureau of Internal Revenue and the Bureau of Customs must be provided with adequate appropriations in order to be able to collect effectively the taxes and duties due the Government. For the next five years, I propose to allocate to these offices the following amounts:

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
Bureau of Internal Revenue	10.3	10.0	11.5	11.8	11.9	12.0
Bureau of Customs	4.5	4.7	5.2	5.5	5.7	5.8

In return, I expect from these bureaus efficient and honest performance of their duties and functions. They should be able to minimize the extent of delinquent taxes and reduce the entry of contraband goods.

The constitutional mandate concerning the holding of elections every two years is another factor in our rising expenditures for general government. To economize on election expenditures, I proposed certain constitutional amendments, such as the synchronization of local and national elections every four years and election of senators by specific senatorial districts for eight-year terms.

Debt Service

We are adhering to that sound principle of meeting the requirements for servicing the public debt. Provisions for repayment of principal, sinking fund contributions and interest payments have been and will continue to be made, as shown below:

DEBT SERVICE EXPENDITURES

FY 1959–FY 1964

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
Loan repayment and sinking fund contributions	31.93	49.84	40.17	43.26	45.08	46.08
Interest payments	21.65	26.75	30.25	32.98	36.48	36.25
Retirement and redemption of PNB Notes, Emergency Currency and Guerrilla Notes (R. A. 211 and 369)	0.02	0.02	.....	0.05	0.05	0.05
Total Debt Service	53.60	76.61	70.42	76.29	81.61	82.38
Per Cent to Total Expenditures	5.2	6.6	5.7	5.6	5.8	5.6
Per Cent to National Income	0.6	0.8	0.7	0.7	0.8	0.7

We provided ₱18.9 million in Fiscal Year 1960, ₱12.0 million in Fiscal Year 1961, and ₱21.0 million a year for the remainder of the five-year period, or a total of ₱93.9 million as contributions to the Backpay Sinking Fund under R. A. No. 304; ₱99.1 million as contribution to the sinking funds for PWED bonds under R. A. No. 1000 from Fiscal Year 1959 to Fiscal Year 1964; ₱12.0 million a year from Fiscal Year 1959 to Fiscal Year 1961 for the repayment of the U. S. RFC loan; ₱10.9 million in Fiscal Year 1959 and Fiscal Year 1960 to complete the fund requirements of the repayment of U. S. Loan under the Romulo-Snyder Agreement; and ₱3.8 million a year from Fiscal Year 1962 to Fiscal Year 1964 as contribution to the Veterans Backpay Sinking Fund under R. A. No. 897. Interest payments on PWED bonds aggregate ₱144.2 million from Fiscal Year 1959 to Fiscal Year 1964, while those for Treasury Notes issued under R. A. No. 245 total ₱27.8 million. Details of the debt service obligations are shown in Annex F.

In addition to the above debt service payments under the General Fund, we are also using a part of the proceeds of the Dollar Margin Law in the amounts of ₱60 million in Fiscal Year 1960 and ₱80 million a year from fiscal years 1961 to 1964 for the repayment of Treasury Notes and non-negotiable Promissory Notes under R. A. No. 2052.

IV. FINANCING NATIONAL DEVELOPMENT

Revenues Insufficient for the Future

The apparent imbalance between the planned government expenditures and projected revenues has once again prompted me to bring to the attention of Congress the necessity for additional revenues to finance the Administration's accelerated social and economic development program.

The following figures represent our estimates of income for the General Fund. In arriving at these estimates, we have considered among others the recently approved revenue measures, including the Dollar Margin Law and the removal of tax exemptions from new and necessary industries, the changes in the direction of trade, the composition of imports, the adverse effects on revenue of the decreasing Special Import Tax, and the increase in national income. We, therefore, consider the following estimates realistic:

ESTIMATES OF INCOME FOR THE GENERAL FUND UNDER EXISTING LAWS

Fiscal Years 1959–1964

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Act.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
Excise Taxes	185.9	196.5	200.0	202.0	204.0	206.0
License and Business Taxes	158.4	170.1	176.6	180.1	183.6	187.7

Income Taxes[a]	183.6	201.7	205.9	211.3	215.4	219.5
Import Taxes[b]	163.2	228.4	203.0	196.0	187.1	177.2
Other Taxes and Duties	41.6	42.8	45.4	47.6	48.4	49.1
Other Income	91.9	56.1	64.1	67.3	69.3	70.9
Extraordinary Income[c]	29.2	80.5	137.8	92.3	96.3	100.3
(Appor. to local gov'ts.)	(64.4)	(73.2)	(75.2)	(78.7)	(82.2)	(85.7)
Total income from existing sources	789.4	902.9	957.6	917.9	921.9	925.0

[a] Based on existing rates for FY 1960.
[b] Assumes: (1) 5 per cent increase in volume from FY 1962; (2) No substantial change in composition of imports; (3) R. A. No. 2352 will be fully implemented; (4) Changes in existing rates as per existing laws, R. A. No. 1355 and R. A. No. 1394.
[c] Treasury Notes excluded.
[d] Includes P47 million representing proceeds of Gold Devaluation Payment.

But the projected revenues cannot cope with the planned expenditures. Additional sources must be tapped if we are to carry on our program of expansion, as may be seen in the following projection of revenue-expenditure balance:

PROJECTED REVENUE-EXPENDITURE BALANCE

GENERAL FUND

FY 1959–FY 1964

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)	FY 1962 (Proj.)	FY 1963 (Proj.)	FY 1964 (Proj.)
PLANNED INCOME:						
1. Existing Revenue Sources	789.4	902.9	957.6	917.9	921.9	925.0
2. Additional Revenues	—	—	—	112.2	192.9	245.5
Total Income	789.4	902.9	957.6	1,030.1	1,114.8	1,170.5
PLANNED EXPENDITURES:						
1. Current Operating Expenditures	718.7	821.3	887.4	934.2	959.5	996.4
2. Capital Outlays	70.1	81.3	70.1	92.0	97.6	103.1
Total Expenditures	788.8	902.6	957.5	1,026.2	1,057.1	1,099.5
Excess of Income over Expenditures	0.6	0.3	0.1	3.9	-57.7	71.0

Sustained Development Dependent on Additional Revenues

It is quite evident from the above discussion that more revenues are needed to sustain our development effort. If we are to progress and be able to expand social services for the masses of our people, we must be prepared to pay the price in terms of a greater portion of the national income being channeled from consumption to productive investments. We must learn to sacrifice present satisfaction in favor of greater future benefits.

No one can dispute the fact that our revenues have steadily increased from year to year. General Fund revenues have gone up from P530.8 million in Fiscal Year 1953 to P789.4 million in Fiscal Year 1959. I consider this achievement particularly impressive in view of the fact that we were able to secure these increases in income in spite of the presence of such factors and conditions as would tend to limit tax collections. But these increases in revenue collection have not kept pace with the rise in public expenditures. I believe that with further improvement in the efficiency of the collection machinery, we can expect to narrow down the gap between revenues and expenditures. Our economy has a great potential capacity to yield additional revenues. Only about 8.5 per cent of our national income is diverted to government purposes by taxation, a proportion which is lower than in other countries in a similar stage of development. (See Annex G).

I have often stated that my Administration is dedicated to the cardinal mission of raising the level of prosperity and well-being of our people. To this end, we have geared the vast machinery of government towards intensive national development by improving and extending its wide range of public services, by increasing the output of public undertakings, and above all, by creating the proper environment in which private enterprise may venture and flourish.

As we all are aware, the attainment of our goal of national development involves huge amounts of public investment. While maintaining proper balance between the private and public sectors of the economy, we have to accumulate the necessary capital which must be diverted from the national output and allocated to social and economic development programs. We cannot expect to achieve national development in the magnitude contemplated and needed without bearing the burden of normal government expenditures through taxation.

Of course we have the alternative of financing national progress through public borrowings or by reducing total expenditures to the level of the available income. But public borrowing as a means of financing national development entails serious risks for the economy because its abuse generates inflationary pressures. On the other hand, if we rely on the simple expediency of reducing government expenditures to balance our budget, then fiscal policy will cease to be an instrument for national advancement.

We cannot afford to retard our social and economic development. We must, therefore, take decisive steps to obtain adequate revenues to support our national development effort and at the same time preserve the integrity of our public finances.

An Equitable Tax Policy

I am indeed very glad that the creation of the Joint Legislative-Executive Tax Commission was approved in the last session of Congress. I have high hopes that this commission will bring about desirable and long-needed reforms in our tax structure. Through a comprehensive study of our present tax system, I am certain that this body will find ways to minimize the dependency of government revenues on indirect taxes and provide new sources of income in the form of increased direct taxation on income and wealth in accordance with the principle of ability to pay.

I reiterate the following principles enunciated in my Budget Message last year which I believe should be adopted as a guide in the formulation of any tax legislation:

1. To avoid increasing the tax burden of the low income groups.
2. To assess sectors of the economy not now bearing their proportionate share of the costs of Government.
3. To place emphasis on progressive rather than regressive factors in the tax system, with ability to pay as the principal criterion.
4. To avoid impairing appropriate business incentives.
5. To use the tax structure as a legitimate instrument for achieving social and economic justice in the distribution of the fruits of our national economy.

In the meantime, I am expecting additional revenues as a result of the current campaign for improved tax collection. The success of this campaign is bolstered by (1) the strengthening of the Bureau of Customs and the Bureau of Internal Revenue; (2) the "pay-as-you-file" method which will be implemented this year; (3) the tax education campaign which has been greatly bolstered by the Tax Census Law; and (4) the continuing efforts to plug the loopholes for tax evasion and customs venalities.

Judicious Use of National Credit

Public credit will continue to supplement current tax revenues in paying for the cost of national development. To undertake permanent improvements, public as well as private entities often find it necessary to resort to credit when current income is insufficient. This is the basic justification for incurring public debt subject, certainly, to some qualifications.

In formulating the revised bond financing program shown in Annex H, we have adhered closely to the following established criteria for selecting those programs and projects to be financed by the use of national credit:

1. Borrowed funds can be used only for bona fide capital expenditures.
2. Projects to be financed from this source must be directly productive or clearly contributory to increased agricultural and industrial productivity.
3. The proceeds of public borrowings must be assigned to truly self-liquidating or income-creating projects.
4. All projects financed by borrowed funds must rank high on the priority listing of essential programs and demonstrate a high benefit-cost ratio.

The integrated bond financing program includes urgent new projects, the foreign exchange requirements of which will come from foreign loans or reparations such as the hydroelectric power development of the National Power Corporation, overseas shipping, integrated steel mill, the Marikina Multi-purpose Project, and public works projects approved by the Export-Import Bank and the Development Loan Fund.

From Fiscal Year 1954 through Fiscal Year 1959 the National Government financed from bond funds the construction of permanent public improvements and the acquisition of capital assets valued at P304,688,098. Examples of these assets and permanent public improvements are:

Highways, bridges, ferries	P70,773,280.00
Irrigation head control, canals and laterals	93,889,206.00
Water supply reservoirs, etc.	16,692,512.00
Breeding animals	967,220.00

It may also be noted that in the same period about 73% of domestic public borrowing was used for capital outlays, most of which were for developmental projects.

Although these projects are meritorious, the use of public credit in financing them should be minimized in order to achieve growth with stability. We are, therefore, restraining further the use of public credit,

as illustrated by the following comparison of cash allocation from bond funds proposed in last year's fiscal plan and this year's:

	Fiscal Plan 1959–1963	Fiscal Plan * 1960–1964
FY 1960	₱126,182,000.00	₱75,502,000.00
FY 1961	133,174,000.00	91,070,000.00
FY 1962	135,774,000.00	115,311,000.00

* Projects planned to be financed are listed in Annex H.

Limited borrowings and provisions for debt service are expected to result in a moderate increase of our over-all net public debt from ₱2,002.2 million as of the end of Fiscal Year 1959 to ₱2,184.6 million at the end of Fiscal Year 1964. Net domestic debt, however, is projected to fall from ₱1,871.2 million to ₱1,712.9 million during the same period.

Public debt should be limited primarily because it imposes the burden of debt service. Ultimately tax revenues have to be provided to meet the requirements of redemption and interest payments. But it should also be noted that government expenditures financed by public debt expand the gross national product, increases of which may balance increments in public debt. The following table shows the portion of our gross national product that will be used for servicing our public debt:

Fiscal Year	GNP (In Millions)	Debt Service *	Debt Service as % of GNP
1959	10,602	53.6	.5
1960	10,964	76.6	.7
1961	11,410	70.4	.6
1962	11,856	76.3	.6
1963	12,303	81.6	.7
1964	12,749	82.4	.6

* Includes advances made by the National Government for account of local governments, government corporations and other agencies.

The Public Debt and Its Management

When this Administration took over the reins of government on December 31, 1953, the total public debt, including additional backpay obligations incurred under R. A. No. 304, stood at ₱1,323.7 million. At the close of the last fiscal year (June 30, 1959), the outstanding public debt was ₱2,200.6 million. This implies that our Administration is responsible for a net increase of ₱876.9 million in the public debt during the last five and a half years, as may be seen below:

COMPARATIVE STATEMENT ON PUBLIC DEBT

As of December 31, 1953 and June 30, 1959

(Million Pesos)

	Total Dec. 31, 1953	Per Cent To Total	Payments	Additional Borrowings	June 30 1959	Per Cent To Total
NATIONAL GOVERNMENT	850.5	64.3	283.0	599.1	1,166.6	53.0
Backpay	661.8	50.0	184.0	.....	477.8	21.7
Budgetary	185.4	14.0	97.1	.....	88.3	4.0
Development	3.3	0.3	1.9	599.1*	600.5	27.3
GOVERNMENT CORPORATIONS	393.1	29.7	296.4	893.8	990.5	45.0
Private Credit	108.0	8.2	267.8	639.5*	479.7	21.8
Developmental	251.5	19.0	11.8	254.3*	494.0	22.4
Backpay	33.6	2.5	16.8	.....	16.8	0.8
LOCAL GOVERNMENTS	80.1	6.0	39.2	2.6	43.5	2.0
TOTAL	1,323.7	100.0	618.6	1,495.5	2,200.6	100.0

* See Annexes I, J and K, for details.

While we incurred ₱1,495.5 million of additional borrowings during the period from January 1, 1954 to June 30, 1959, we also made payments on the public debt in the total amount of ₱618.6 million; hence, the net increase of ₱876.9 million.

The payments we have made on the public debt include ₱184.0 million of the ₱661.8 million backpay obligations and ₱97.1 million of the ₱185.4 million budgetary debt incurred during the previous Administration. No additional borrowing was incurred for budgetary purposes from January 1, 1954, so that the outstanding budgetary debt was reduced to ₱88.3 million as of June 30, 1959.

Of the ₱1,495.5 million additional borrowings incurred during our Administration, ₱599.1 million was for the account of the National Government, ₱893.8 million for government corporations, and ₱2.6 million for local governments.

The additional amount borrowed by the National Government was devoted exclusively to developmental purposes (see Annex I). The expenditure of ₱599.1 million by the National Government, including other capital expenditures financed by tax revenues, increased the capital assets of the nation by ₱869.6 million during the five-and-a-half year period. The debt incurred by government-owned or controlled corporations was used for expanding the credit facilities to the private sector for use in agricultural, industrial, and commercial development (Annex

J), and for financing the development projects of those corporations (Annex K).

To finance the accelerated pace of our economic development program, we have to supplement our limited revenues with public borrowings. For this reason, the total public debt is estimated to increase from ₱2,200.6 million at the beginning of Fiscal Year 1960 to ₱2,414.6 million at the close of Fiscal Year 1964. Total additional borrowings during the five-year period will amount to ₱1,451.0 million, but redemptions and repayments will aggregate ₱1,237.1 million. Thus, our net additional borrowings will amount to only ₱213.9 million in five years, or an average of about ₱42.7 million a year. (Details of growth of the public debt are shown in annexes L–1 and L–2). Compared with those in other countries, the ratio of public debt to our national income is quite low (see Annex M).

We are providing funds for meeting our debt service obligations as they fall due. In this way, the full faith and credit of the National Government will be preserved.

To limit the expansion of current monetary demand, we intend to have such institutions as the Government Service Insurance System and Social Security System absorb a bigger portion of the bond sale of the National Government from Fiscal Year 1960 through Fiscal Year 1964. In addition, tax collections used to meet debt service requirements will reduce inflationary pressures.

In redeeming government obligations some measures need to be taken, particularly in the cases of backpay and the R & D bonds.

As of June 30, 1959, the Backpay Sinking Fund was deficient by about ₱139 million because of the conversion of many backpay claims of 30 years maturity (under R. A. No. 897) into claims of 10 years maturity (under R. A. No. 304, as amended), as sanctioned by the Department of Justice. For another five years, therefore, and till all backpay obligations are fully settled, it is necessary that we provide an annual contribution of ₱21 million to the Backpay Sinking Fund. And, since the obligations have already matured, R. A. No. 304, as amended, should be further amended to extend their redemption.

Of the ₱200 million R & D bonds issued between 1949 and 1951, ₱9.7 million matured last fiscal year, ₱77.4 million will mature during the current fiscal year, and ₱112.4 million in Fiscal Year 1961. The repayments made by the government corporations that utilized the proceeds of these bonds have been slow and inadequate to redeem the bonds at maturity. Hence government corporations authorized to issue their own bonds should be allowed to refinance their debts. I have, moreover, authorized the refinancing of those R & D obligations which could not be refunded by the other corporations. For this purpose, five-year treasury notes will be issued. Outstanding treasury notes will accordingly increase from ₱237.8 million at the end of Fiscal Year 1959 to ₱287.9 million at the close of Fiscal Year 1960. Of this amount, ₱240.8 million will be redeemed out of the proceeds from the Dollar Margin Law (see Annex O).

Effective Utilization of Reparations

Reparations payments by Japan under the terms of the Reparations Agreement of 1956 can provide much of our capital goods requirements. We shall implement fully the provisions of the Reparations Law regarding established priorities in the procurement of reparations goods and services and proper disposition of their cash proceeds.

As of December 18, 1959, total goods and services contracted for by the Reparations Mission in Tokyo amounted to $118,797,373, of which $48,238,557 was destined for the public sector and $70,558,816 for the private sector. Deliveries of reparations items to end-users during the same period amounted to $73,550,398, out of which $44,921,975 was received by the public sector and $28,628,423 by the private sector. During the same period total reparations payments by the Japanese government to Japanese suppliers amounted to $99,137,570.

The following statement gives the summary of total goods and services contracted, delivered and paid under the reparations agreement with Japan from July 1, 1956 to December 18, 1959:

	Contracts	Deliveries	Payments
Capital and Consumer Goods	$106,229,823	$61,626,654	$86,580,774
Services	12,567,550	11,923,744	12,556,796
Total	$118,797,373	$73,550,398	$99,137,570

The estimated cash proceeds from the sale of reparations items for the seven-year period from Fiscal Year 1959 amount to ₱154.2 million of which ₱40 million has been earmarked for the Veterans Trust Fund, ₱1.0 million for reimbursement of cash advance received from the Central Bank, and ₱113.2 million for the Special Economic Development Fund (See Annex P). The sum accruing to the Special Economic Development Fund has been allotted over the seven-year period as follows:

1. To the Development Bank of the Philippines to constitute a special trust fund for the establishment of provincial development banks ..... ₱48,500,000

2. To the Philippine National Bank as a trust fund for private development projects	29,000,000
3. For the construction of school buildings	8,000,000
4. For a revolving fund as additional aid in the establishment of rural banks	7,000,000
5. For the purchase of landed estates	6,000,000
6. Unallocated	14,755,594

V. THE 1961 FISCAL PLAN

Short-Run Objective—Fiscal Stabilization

In my State of the Nation Address and elsewhere in this Budget Message I have mentioned some of the most significant problems requiring immediate solution which still beset our economy today. While our efforts to solve these problems have yielded some positive results, the gains we have made are yet too insignificant to make us complacent and lax in our activities to contend with the remaining fiscal and economic ills. We have yet to solve the problems of low dollar reserves, inflationary pressures, and insufficient revenues. We should maintain confidence in our currency, both internally and externally, by not allowing inflation to reduce the purchasing power of the peso and by improving its international position. Likewise, we should provide our people with essential social services and facilities and promote the development of industries.

Our fiscal plan for 1961 will pursue the same objectives as I stated last year:

(1) To balance the budget. This can be achieved by (*a*) obtaining additional revenues through a more equitable tax program, and (*b*) reducing government expenditures. Our tax program should assess segments of the economy not bearing their proportionate share of the cost of government. Our fiscal policy should distribute the tax burden as fairly as possible and should impose the least possible restraint on those incentives—to work, to save, and to invest—that are basic both to our system of competitive enterprise and to the growth of our economy.

In reducing government expenditures, we are careful not to jeopardize essential public services. There will be no increase in the costs of normal government operations except to satisfy mandatory commitments of the Government, to provide essential services for increased population growth, or to continue or extend services previously authorized, the non-performance of which would cause significant social or economic loss.

(2) To distribute available resources among competing demands on the basis of relative priorities and their contribution to the social and economic objectives of the Government. Increases will be limited to clearly essential needs, and reductions will be made wherever possible. In this process of rephasing government expenditures, cost-benefit ratio will be the overriding consideration in determining program priorities.

(3) To maximize the amounts which can be made available for the Government's economic development program. We must utilize more of our resources in activities that will enhance our productive facilities. While holding present gains and maintaining present standards in the social sector, we must be prepared to make some temporary sacrifices in our social development activities until we have reasonably raised our economic output.

(4) To maintain monetary stability by reducing public borrowings and carefully planning their disbursements. Borrowed funds will be devoted exclusively to the prosecution of projects which directly increase agricultural or industrial productivity. Bond funds will also be earmarked for other public works projects only when these projects have already been started and cannot be left unfinished without causing loss or waste of government assets and resources, or bringing forth other detrimental results.

(5) To produce more goods and services. Our primary objective is to attain self-sufficiency through expansion and diversification of agricultural production, more efficient utilization of our national resources, and greater productivity of existing industrial facilities. The development of foreign exchange earning and foreign exchange saving industries in the private sector will be given highest priority, and manufacturing industries using domestic raw materials, every encouragement.

(6) To improve our balance of payments. We shall explore every opportunity for new or expanded trade with areas not within our traditional trade orbit.

The 1961 Fiscal Plan

We are presenting the 1961 Fiscal Plan compared with the Fiscal Year 1959 Plan and the estimated data for the current fiscal year in the foliowing table:

CONSOLIDATED FISCAL PLAN FOR 1961

By Expenditure Purposes and Financing Sources

ALL FUND SOURCES

(Million Pesos)

	FY 1959 (Act.)	FY 1960 (Est.)	FY 1961 (Est.)
EXPENDITURE PURPOSES: *			
1. Economic Development	322.5	389.7	421.1